



U.S. Department of Justice

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Eastern District of New York*

AAS
F. #2009R02380

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June 30, 2017

BY ECF

The Honorable Ann M. Donnelly
United States District Judge
United States District Court
Eastern District of New York
225 Cadman Plaza East
Brooklyn, New York 11201

Re: United States v. HSBC Bank USA, N.A. and HSBC Holdings PLC
Criminal Docket No. 12-763 (AMD)

Dear Judge Donnelly:

Pursuant to the Court's July 1, 2013 Order directing the government to file quarterly reports regarding the implementation of the deferred prosecution agreement ("DPA") in the above-captioned matter, the government submits this status report.

During the previous quarter, the Monitor progressed his work as mandated under the DPA and the U.K. Financial Conduct Authority Direction on five fronts. First, the Monitor continued work for the Fourth Annual Follow-up Review of HSBC's AML and sanctions compliance program. He largely completed his on-site work in India, Mexico, Bermuda, and Bahrain, and he began on-site work in the Philippines earlier this month. The Monitor also began a focused thematic review of how HSBC's newly created Financial Crime Risk function is supporting its anti-money laundering ("AML") and sanctions compliance program. Furthermore, he is monitoring Group-level enhancements to the bank's AML and sanctions compliance program and remediation efforts for the compliance program. Finally, the Monitor is examining the ability of the bank's AML and sanctions program to address the financial risk of servicing large multi-jurisdiction clients.

Second, the Monitor continues to assess HSBC's adoption of the Monitor's recommendations made in conjunction with his Initial Review, First Annual Follow-up Review, and Second Annual Follow-up Review. The bank has successfully implemented the majority of the Monitor's recommendations but has not implemented others.

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Third, on May 25, 2017, the Monitor issued final recommendations stemming from his Third Annual Follow-up Review.

Fourth, the Monitor submitted the Fourth Annual OFAC Compliance Review Report pursuant to the Cease & Desist Order issued by the Board of Governors of the Federal Reserve System. While noting some improvements in the HSBC's sanctions control environment in 2016, the Monitor found several significant deficiencies in the bank's sanctions control function.

Fifth, the Monitor continued his review of historic and current payment transparency issues within the bank.

The government continues to monitor HSBC's compliance with the terms of the DPA and believes that HSBC continues to show a commitment to meeting its obligations thereunder. The government is aware of no issues that require the Court's intervention at this time.

Respectfully submitted,

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cc: All Counsel of Record (via ECF)